



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Notice of Intent to Adopt Regulations

In accordance with section 4-168(a) of the Connecticut General Statutes, notice is hereby given that the Insurance Commissioner, pursuant to the authority of sections 38a-8(c) and 38a-459 of the Connecticut General Statutes, proposes to adopt a regulation concerning funding agreements issued to an institution for the purpose of providing collateral under a SEC registered notes program.

The Regulations of Connecticut State Agencies are amended by adding sections 38a-459-21 to 38a-459-25, inclusive, as follows:

Funding Agreements

(NEW) Sec. 38a-459-21. Scope and application

Sections 38a-459-21 to 38a-459-25, inclusive, of the Regulations of Connecticut State Agencies prescribe the terms and conditions in this State under which life insurance companies may issue funding agreements to support the obligation of an institution under a SEC registered notes program.

(NEW) Sec. 38a-459-22. Definitions

As used in sections 38a-459-21 to 38a-459-25, inclusive, of the Regulations of Connecticut State Agencies:

(1) "Controlled by" and "under common control with" is defined in section 38a-129 of the General Statutes;

(2) "Funding agreement" means an agreement that authorizes a domestic life insurer to accept and accumulate funds and to make one or more payments at future dates in amounts that are not based on mortality or morbidity contingencies;

(3) "Institution" means an established legal entity other than a natural person, not controlled by or under common control with the insurer issuing the funding agreement to the institution; and

(4) "SEC registered notes program" means a program of an institution involving a public offering of debt securities registered with the U.S. Securities and Exchange Commission ("SEC").

(NEW) Sec. 38a-459-23. Funding agreement terms; description of financial strategy

A funding agreement may be issued to an institution for the purpose of providing collateral for that institution's obligation under an SEC registered notes program, provided such funding agreement shall have a maturity date measured from the date of original issuance of not less than nine (9) months and not more than thirty (30) years. Such funding agreement shall not be issued until the insurer has filed a description of financial strategy, together with copies of the contract form with the Insurance Commissioner, and the description of financial strategy has been approved or has not been disapproved within the thirty (30) day period following the date of filing, in which event the description of financial strategy shall be deemed approved. For purposes of this section, the description of financial strategy shall include a general statement of investment strategy including a representation as to whether the assets supporting the funding agreements shall be managed in a separate portfolio of the general account or shall be part of a portfolio of similar liabilities, a discussion of investment risks (including minimum investment guidelines) and any relevant liquidity or other risks and the measures the insurer intends to take to mitigate against these risks. The description of financial strategy filed with the Insurance Department shall be given confidential treatment by the Department in accordance with sections 1-210(b)(5) and 38a-69a of the Connecticut General Statutes.

(NEW) Sec. 38a-459-24. Financial requirements; annual statement reporting requirements

(a) An amount under a funding agreement shall not be guaranteed or credited except upon reasonable assumptions as to investment income and expenses and on a basis equitable to all holders of funding agreements in a given class. Such funding agreements shall not provide for payments to or by the insurer based on mortality or morbidity contingencies.

(b) An insurance company's liability associated with funding agreements issued to provide collateral for an institution's obligations under a SEC registered notes program shall not exceed ten percent (10 %) of that insurance company's liabilities excluding separate accounts.

(c) Assets supporting the funding agreements shall be managed in a separate portfolio of the general account or shall be part of a portfolio which includes liabilities similar in nature to the funding agreements, e.g., terminal funding arrangements, guaranteed investment contracts, or structured settlements.

(d) Each insurance company shall file with the Insurance Commissioner a schedule supplementing that insurance company's quarterly statement, which schedule shall contain the following information summarizing funding agreement business related to SEC registered notes programs during that quarter. The schedule shall provide a breakdown of each funding agreement detailing the following terms:

- (1) Amount of premiums;
- (2) Maturity period;
- (3) Guaranteed interest rate; and
- (4) Schedule of investments supporting the funding agreements.

The schedule filed with the Insurance Department shall be given confidential treatment by the Department in accordance with sections 1-210(b)(5) and 38a-69a of the Connecticut General Statutes.

(NEW) Sec. 38a-459-25. Filing for Prior Review

At the discretion of the Insurance Commissioner, after reasonable notice to the insurer involved, the Insurance Commissioner may require the filing with the Insurance Department, for review prior to use, of all marketing material pertaining to a funding agreement proposed for use by an insurer. Except as an inconspicuous identification of the company issuing the funding arrangement, the insurer shall not permit an institution to utilize in its marketing material promoting an SEC registered notes program: the trade name, name of a particular division of the insurer, service mark, slogan or symbol identifying reference of the insurer or the parent company of the insurer.

Statement of Purpose: To establish standards and procedures for funding agreements issued to an institution for the purpose of providing collateral for that institution's obligations under a SEC registered notes program.

All interested persons are invited to submit written data, views, or arguments in connection with the proposed action no later than December 3, 2004 to the State of Connecticut, Insurance Department, Attention: Jon Arsenault, Esq., P.O. Box 816, Hartford, CT 06142-0816.


Susan F. Cogswell
Insurance Commissioner